Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None Date of Communication: Not Applicable

Person To Contact: , ID No.

Telephone Number:

Refer Reply To: CC:PSI:B01 PLR-133231-14

Date:

March 04, 2015

LEGEND

X =

Date 1 =

Date 2 =

Date 3

State =

Dear

This responds to a letter dated August 28, 2014, submitted on behalf of \underline{X} , by \underline{X} 's authorized representative, requesting relief under section 1362(f) of the Internal Revenue Code (the Code).

FACTS

According to the information submitted and representations made within, X was was formed on Date 1 and made an S election effective Date 2, under the laws of State.

X's S corporation election was potentially ineffective because X's governing documents allowed for disproportionate distributions to shareholders, possibly creating a second class of stock. X also listed an incorrect effective date, Date 2, on the Form 2553. On

<u>Date 3</u>, <u>X</u> and its shareholders amended its governing documents to remove the provisions allowing for disproportionate distributions.

 \underline{X} represents that the potential invalidity of its S election was inadvertent and was not motivated by tax avoidance or retroactive tax planning. \underline{X} represents that all of X's distributions to shareholders have been pro rata in accordance with their ownership interests. \underline{X} also represents that \underline{X} and its shareholders agree to make any adjustments required as a condition of obtaining relief under the inadvertent invalid election rule as provided under § 1362(f) of the Code that may be required by the Secretary. \underline{X} and its shareholders represent that they have filed all returns consistently with \underline{X} being an S corporation.

LAW AND ANALYSIS

Section 1361(a)(1) provides that the term "S corporation" means, with respect to any taxable year, a small business corporation for which an election under § 1362(a) is in effect for the year. Section 1361(b)(1) defines a "small business corporation" as a domestic corporation which is not an ineligible corporation and which does not (A) have more than 100 shareholders, (B) have as a shareholder a person (other than an estate, a trust described in § 1361(c)(2), or an organization described in § 1361(c)(6)) who is not an individual, (C) have a nonresident alien as a shareholder, and (D) have more than 1 class of stock.

Section 1362(d)(2)(A) provides that an election under § 1362(a) shall be terminated whenever (at any time on or after the 1st day of the taxable year for which the corporation is an S corporation) such corporation ceases to be a small business corporation.

Section 1362(f) provides, in part, that if (1) an election under § 1362(a) by any corporation was not effective for the taxable year for which made by reason of a failure to meet the requirements of § 1361(b), (2) the Secretary determines that the circumstances resulting in the ineffectiveness were inadvertent, (3) no later than a reasonable period of time after the discovery of the circumstances resulting in the ineffectiveness, steps were taken so that the corporation for which the election was made is a small business corporation, and (4) the corporation for which the election was made, and each person who was a shareholder in such corporation at any time during the period specified by § 1362(f), agrees to makes such adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary with respect to such period, then, notwithstanding the circumstances resulting in the ineffectiveness, the corporation is treated as an S corporation during the period specified by the Secretary.

CONCLUSION

Based solely on the facts submitted and the representations made, we conclude X's S election may have been ineffective. We further conclude that the potential ineffectiveness of \underline{X} 's S corporation election was inadvertent within the meaning of § 1362(f). Therefore, \underline{X} will be treated as an S corporation effective $\underline{Date\ 1}$ and thereafter, provided \underline{X} 's S corporation election is not otherwise terminated under § 1362(d).

Except as specifically ruled upon above, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code. Specifically, we express or imply no opinion regarding \underline{X} 's eligibility to be an S corporation.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

Pursuant to the power of attorney on file with this office, we are sending a copy of this letter to your authorized representative.

Sincerely,

Joy C. Spies
Joy C. Spies
Senior Technician Reviewer, Branch 1
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)
Copy of this letter
Copy of this letter for section 6110 purposes

CC: